# Strategic Asset Allocation Reviewed, Manager Changes to ETF Model Portfolios

Model Portfolio Changes | April 2021

Specific allocation changes have been made as a result of the recent strategic asset allocation review, in addition, we have used this opportunity to also refresh some of the managers used in our ETF model portfolios.

**Allocation changes to Cash, Fixed Interest, Property, Infrastructure and Equities**

- The fall in interest rates in recent years has seen a material reduction in our forecast returns for cash. This has led to a meaningful reduction in our cash weightings across all risk profiles, and subsequent increase in both Australian and Global fixed interest allocations within the defensive sleeves of each risk profile.

- Within real assets, exposure to Australian Listed Property and Global Listed Property has been maintained or reduced while the allocation to hedged Global Listed Infrastructure has been increased. This change is driven by our updated capital market assumptions, which see a materially lower forecast volatility for Global Infrastructure compare to A-REITs or G-REITs.

- We have slightly increased our allocation to International Fixed Interest at the expense of Australian Fixed Interest. This was due to the changes in the relative attractiveness of the two asset classes per our capital market assumptions.

- We have slightly increased our exposure to Australian equities, while slightly reducing the global equities weightings. This is driven by increased return assumptions for Australian equities and reduced return assumptions for global equities compared to our last SAA review. We maintain our overall preference for international equities given its lower expected volatility and the relatively concentrated nature of Australian equities.

- Recommended currency hedging within the global equity allocation has been reduced from 50% to 45%. This is an outcome of the reduced global equity weighting, but wanting to maintain approximately the same overall exposure to foreign currency at a portfolio level.

**No changes in Australian Equities**

Our blend STW, QOZ, ISO and MVW has served us well, and while there are many ETFs to choose from now in Australian equities, we continue to think that this blend of large-cap, value, mid-cap and small-cap exposures provides the desired mix of Australian equities.

**No changes in Global Equities**

We maintain conviction in our predominantly large-cap mix of VGAD, MGOC, QUAL and VGE. MGOC has struggled with underperformance in the last six months, but as a blend we continue to believe these ETFs provide a high quality, diversified and differentiated portfolio mix across both developed and emerging markets.

**New Global Property ETF**

Vanguard Australian Property VAP and Magellan Infrastructure MICH continue to be our highest conviction ideas in their respective sectors and have each continued to deliver the outcomes we have expected, so we are making no changes in these sectors as a result. We have added coverage of Bronze-rated VanEck Vectors FTSE International Property (Hedged) ETF REIT, and its currency hedging makes it a better fit for our portfolios that the unhedged DJRE, which we therefore remove for REIT. Some weights are adjusted due to asset allocation changes as outlined above.

**Addition in Australian Fixed Interest**

The increase in exposure to Australian fixed interest at a time of historically low and potentially rising interest rates means we considered more flexible ETFs to diversify exposure in this asset class. Accordingly, we introduce the actively-managed approach of Silver-rated Legg Mason Western Asset Australian Bond BNDS to complement the passively managed iShares Composite Bond IAF. This change adds more flexibility to appropriately manage exposure in a potentially rising rate environment.

**No changes for Global Fixed Interest**

With limited options in an ETF structure for global fixed interest, we maintain our current combination of VIF and VCF, which provides an adequate mix of government bonds and credit for exposure in this asset class.